

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING OCTOBER 21, 2014 - 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

**Present:**

Eugene K. Canzano, Chairperson  
John R. Mumma, Vice-Chairperson  
Clifford Cannon, First Provisional Chair  
Tom Moutes, Second Provisional Chair  
Michael Amerian, Third Provisional Chair  
Ray Ciranna  
Mary Higgins  
David Luther  
Robert Schoonover

**Not Present:**

Staff:

Personnel:

Steven Montagna  
Esther Chang  
Paul Makowski

Alejandrina Basquez

City Attorney:

Miguel Dager

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:05 a.m.

2. PUBLIC COMMENTS

No public comments.

3. MINUTES – AUGUST 19, 2014

Tom Moutes noted corrections to typographical errors. **A motion was made by John Mumma, seconded by Michael Amerian, to approve the August 19, 2014 Regular Meeting minutes, as amended; the motion was unanimously adopted.**

#### 4. MINUTES – SEPTEMBER 5, 2014

**A motion was made by Mr. Mumma, seconded by Robert Schoonover, to approve the September 5, 2014 Special Meeting minutes; the motion was unanimously adopted.**

#### 5. QUARTERLY INVESTMENT REVIEW: PERIOD ENDING 06/30/14

Devon Muir, of Mercer Consulting, began review of fund performance for the second quarter of 2014 by discussing the summary of quarter returns for domestic and international equities and fixed income. Mr. Muir made particular note of the performance of domestic equities as indicated by the Russell 2000 and S&P 500. He then noted international equities experienced a significant sell-off during the quarter and that bonds continued to perform well due to declining rates.

He then reviewed the change in assets for the Plan's Asset Allocation Risk-Profile Funds, Core Options, and the Self-Directed Brokerage (SDB) accounts. He indicated most of the Core Option assets and SDB account assets had experienced growth in the second quarter. Mr. Canzano asked if each pie chart for the asset allocation funds could include labeling of each slice. Mr. Muir responded affirmatively. Mr. Mumma asked for clarification on a footnote which referenced a "Forfeiture/Asset Holding Account." Steven Montagna indicated that the Forfeiture/Asset Holding Account referred to the Plan's reserve fund account.

Mr. Muir then discussed investment expense analysis for the plan and stated that the total fixed fee per participant is at 24 basis points. He concluded his review with a summary of fund performance and noted that the most notable change was replacing PIMCO, the active portion of the DCP Bond Fund, with the Loomis Sayles bond fund, as a result of a Board action made in early October.

#### 6. BOARD REPORT 14-40: ACTIVE INVESTMENT MANAGER SEARCH UPDATE

Esther Chang provided the Board with an update regarding the active investment manager search. She stated that the Board convened a special meeting on October 2, 2014 to discuss fund selections for the active core bond and small-cap growth and value funds, as recommended by the Board's Investments Committee. She stated that selections for the small-cap growth and value funds were deferred until the regular meeting of October 21<sup>st</sup>. She stated the Board acted on the recommendation to select the active core bond fund manager by approving the selection of the Loomis Sayles Core Plus Bond Fund to succeed the current active core bond fund, PIMCO's Total Return Fund. She indicated that due to the news regarding the departure of Bill Gross, manager of the Total Return Fund, the Committee had recommended that the Loomis Sayles fund replace the PIMCO fund sooner rather than later. She stated that Great-West, the Plan's recordkeeper, effected the change as of October 14, 2014.

Cliff Cannon indicated that he had reviewed recent articles regarding Bill Gross and the changes at PIMCO. He stated that colleagues and staff who worked with Bill Gross were still with PIMCO and may have been responsible for handling the City's account, and that the sudden departure of Mr. Gross may not have such major implications. Mr. Muir indicated that could be a possible outcome. He further indicated however that the main trigger for action in early October was the announcement of outflows of the fund; PIMCO reported outflows of \$23 billion in September versus a \$4 billion outflow in August. He further explained that many clients moved away from PIMCO in September, taking their assets with them as they departed. He stated that the quantity of this redemption event was a significant concern for the Plan, and that it would be plausible for PIMCO to be forced to sell higher quality securities if the redemption trend continued. Mr. Canzano indicated that it could also cause issues with liquidity.

Mr. Amerian noted the recommendation to select another fund was determined outside of the announcement that Bill Gross was leaving the company. He stated that based on performance reviews and other data presented, the recommended fund was deemed superior. He stated that the Bill Gross departure only expedited the replacement of the fund. Mr. Canzano concurred.

**A motion was made by Mr. Amerian, seconded by Mr. Moutes, to receive and file staff's update regarding the status of the active investment manager searches; the motion was unanimously adopted.**

#### 7. BOARD REPORT 14-41: INVESTMENT COMMITTEE PROVIDER RECOMMENDATIONS FOR DCP SMALL-CAP FUND

Mr. Canzano indicated that at staff's request this item would be continued to the next regular meeting of the Board, as certain information was not included in the materials distributed to the Board.

#### 8. BOARD REPORT 14-43: TRAINING PROGRAM 2015-16

Mr. Montagna reviewed a recommendation from staff for the training program for FY 15/16. He indicated that each year staff presents the Board with a recommended training program for the subsequent fiscal year to be included in the Personnel Department's annual budget request. He also indicated that the training program for next fiscal year is similar to the training program for the prior year, with an exception of deleting two events. He reviewed staff's recommendation for removing the PIMCO event because it no longer appears to be offered, and the Institutional Investor Defined Contribution Symposium because it is held at venues that create challenges because of their cost in relation to City Travel Policy and because it is exclusive to a very small number of invited participants.

Mr. Montagna then indicated that per Board direction the base training budget increases by 2% each year, and that unused funds from the prior year are carried over to the next year. He noted that a reconciliation of FY 13/14 was currently unavailable but would be brought to the Board at a subsequent meeting. He indicated that significant carryover funds were available and that in light of a growing travel budget balance staff may bring back recommendations to address this in the travel policy.

Mr. Mumma asked if staff was asking for attendance preferences. Mr. Montagna indicated that attendance preferences would be requested separately. Mr. Moutes indicated that the International Foundation of Employee Benefit Plans (IFEBC) Conference for 2015 is scheduled to be held in Hawaii and suggested that the Board may wish to consider conference locations and public perception as part of its training decision-making. Mr. Canzano indicated that he was comfortable with the event staying on the list but perhaps with limited attendance. Mr. Schoonover added that past attendance of the IFEBC Conference in Hawaii resulted in a large negative response for his organization and he concurred with proceeding with caution.

Mary Higgins asked why the travel budget was separate from the Deferred Compensation budget and why training spending is consistently lower than the budgeted amount. Mr. Montagna stated that Deferred Compensation Board travel events are required to be included in the Personnel Department budget and need to be adopted by the Board earlier in the year to meet the Department's budget schedule, whereas the full Deferred Compensation budget, which includes the travel budget portion, is on a calendar year and is submitted to the Board in December or January. He indicated that Board member individual elections for training and travel are the primary drivers of expenditures, and if they are below the budgeted amounts then surpluses are created. Alex Basquez added that the City's budget procedure and City travel processes require listing of all possible travel events and potential attendees, regardless of actual attendance. She added that the Board still has discretion over who attends which event and how much is spent, subject to approval of the Mayor, which occurs later in the process.

Ray Ciranna asked if staff was asking for approval of the 2% base budget increase. Mr. Montagna stated that only the training program was really being recommended for approval since the 2% increase was part of prior Board action. Mr. Mumma asked why the numbers for the travel events on the attachment did not seem to add up correctly. Mr. Montagna indicated that the numbers are actually part of the policy which allocated \$2,500 per person per event and that the Wharton school course was added as an exception to the per person cost. Mr. Mumma then stated that the Wharton School has an advanced course which is secondary to the portfolio course in the program budget and asked if it could be added to the program budget for 2015-16. Mr. Moutes added that the Wharton School advanced course may have a pre-conference component which may be an additional cost as well. Mr. Canzano mentioned that the Wharton School advanced course could be added as an optional attendance election for the same program item. Mr. Montagna responded affirmatively. Mr. Ciranna asked if "expenditures" could be removed from the approval recommendation since the

expenditure portion will be returning to the Board at a later time. Mr. Montagna responded affirmatively.

**A motion was made by Mr. Ciranna, seconded by Ms. Higgins, to approve the Plan's Training Program for Fiscal Year 2015-16 with the addition of the Wharton School Advanced course as an option to the Wharton School Portfolio course; the motion was unanimously adopted.**

#### 9. BOARD REPORT 14-44: NAGDCA RECAP

Mr. Montagna reviewed several highlights from the 2014 annual NAGDCA conference, held in San Antonio, Texas. He stated that of particular note was the keynote presentation by Professor David Laibson, who presented some interesting thoughts on the topic of what influences participant behavior in retirement savings plans. He also noted highlights of other presentations and indicated that the full presentations could be downloaded off of the NAGDCA website.

Mr. Ciranna asked if the Auto Enrollment information included in the presentations could be provided to the CAO and the labor unions. Mr. Montagna responded affirmatively and indicated that a report on Auto Enrollment would be brought before the Board at the November meeting. Mr. Canzano noted that should the Plan implement Auto Enrollment, it would be the first to initiate such a program for 457 plans in the State of California, as it had been determined that labor contract provisions could allow an exception to the anti-garnishment law in California.

**A motion was made by Mr. Amerian, seconded by Mr. Ciranna, to receive and file the report recapping highlights from the 2014 National Association of Governmental Defined Contribution Administrators Annual Conference; the motion was unanimously adopted.**

#### 10. BOARD REPORT 14-45: NATIONAL SAVE FOR RETIREMENT WEEK ENGAGEMENT/AWARENESS PROMOTIONAL CAMPAIGN

Mr. Montagna provided an update regarding the campaign. He indicated staff was able to achieve most of its project objectives prior to the launch of the campaign, including obtaining the Mayoral proclamation, finalizing and issuing the reporting vehicle for active participants and the survey for retired participants. He noted that a webinar was scheduled for October 22<sup>nd</sup> and would be made available online.

Mr. Mumma asked if the webinar could be accessed from City computers. Mr. Montagna responded affirmatively. Mr. Ciranna asked about the status of enhancements to the Retirement Income Projection Calculator, which indicated a revised launch date in December. Ms. Chang indicated that the enhancements to the calculator included revisions to include loan balance considerations, special catch-up

contributions, and DROP rollover amounts. She stated that implementation had been delayed as the calculator was still in beta testing as some programming complications had developed.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Amerian, to receive and file the National Save for Retirement Week engagement/awareness promotional status report; the motion was unanimously adopted.**

#### 11. BOARD REPORT 14-46: STATUS OF DCP CONTRACTS AND PROCUREMENTS

Ms. Chang provided the Board an update on Plan contracts and procurements. She stated that staff was working to finalize the Bank of the West contract, and that the contract for East West Bank and the amendments for State Street and Galliard were either executed or pending signature to be executed.

She stated Bank of the West and East West Bank had assumed management of the FDIC-insured savings account on October 1, 2014 with no service interruption. She stated staff was reviewing contracting provisions with the potential third provider, Union Bank. She indicated that US Bank had also recently expressed interest. She stated staff would bring a recommendation to the Board at a subsequent meeting once further vetting of contractual issues were resolved. She stated that staff was also preparing to release two additional RFPs by the end of the year: the first was for the management of the DCP Stable Value Fund, since the contract for the current incumbent, Galliard Capital Management, was expiring June 30, 2015; and the second was for Plan consulting services related to investments, administration, and communications, with Mercer's incumbent provider contract expiring June 30, 2015.

Ms. Higgins asked whether there was a policy for how often mutual fund selections would be formally reviewed. Mr. Montagna indicated there was a Board approved procurement schedule based on a 5-year cycle. He stated that the active fund searches occur in Year 1, passive searches in Year 2, with other Plan procurements interspersed throughout the rest of the cycle.

Mr. Mumma requested that staff include contract amounts to the report when there is no ceiling amount indicated; he suggested either a year-to-date amount or an amount for the previous fiscal year. He indicated interested stakeholders may want to see the amounts spent on the investment options. Mr. Montagna stated this could be included. He added that the report would not include fees for the Plan's mutual funds, which are not contracted - he then asked Mr. Muir whether that information could be added to the quarterly investment report. Mr. Muir indicated that fees are currently indicated in percentages but estimated dollars could be added in future reports. Mr. Montagna indicated that this would be an additional place to see the overall dollars spent for all investment options in the Plan.

**A motion was made by Mr. Ciranna, seconded by Mr. Amerian, to receive and file the Plan's contract and procurement status report; the motion was unanimously adopted.**

## 12. BOARD REPORT 14-47: STAFF REPORT

Ms. Chang reviewed the staff report covering activity through September 2014. She reviewed statistics for counter activity, accrued leave, hardships, deferrals, and Roth statistics.

Mr. Ciranna asked why counter activity was so high in recent months. Lisa Braun-Ward of Great-West Financial indicated that it could be due to an increase in education and interest industry-wide. Mr. Ciranna then asked how education is provided outside of website content. Ms. Braun-Ward indicated that education occurs on a one-on-one basis when participants come in to the office. Mr. Mumma asked why hardship applications peaked with the economy but loan numbers continued to stay high. Lisa Tilley of Great-West Financial indicated that this was a phenomenon they were seeing across all plans. She stated that the typical use of loans do not relate to economic fluctuations and that tax planning issues are commonly discussed more with retirees and not as much with active employees. Mr. Mumma asked if Roth was discussed with participants. La Tanya Harris of Great-West Financial responded affirmatively.

Mr. Cannon noted that there were many pending projects listed with an October 2014 pending due date and asked how priorities were assigned. Mr. Montagna stated staff addressed highest priority items first but maintained a listing of all projects so as not to lose track of them. He stated that staff was considering making changes to the format of the project list in order to communicate them more effectively.

Mr. Ciranna asked about the differences in percentages in staff and why some staff members contribute less than 100% of their time to Deferred Compensation. David Luther replied that staffing percentages are based not only on funding considerations but departmental or divisional needs as well. Mr. Montagna added that certain job functions, such as those related to the Pension Savings Plan, are not reimbursed by Deferred Compensation Plan participant fees. Mr. Mumma asked why another position would be hired at 90% rather than 100%. Mr. Luther indicated that consideration may be made if the workload could justify a staffing change. Mr. Mumma asked what proposals could be made. Mr. Luther indicated that it could be discussed during review of the Deferred Compensation Plan budget.

**A motion was made by Mr. Ciranna, seconded by Mr. Luther, to receive and file the staff report; the motion was unanimously adopted.**

### 13. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Moutes asked for a report from staff regarding the Pension Savings Plan (PSP), concerns about leakage for these quasi retirement accounts, and for clarification about the advisory role of the Board. Mr. Mumma asked for information if the Board of Deferred Compensation should still be the advisory authority or if a different body or entity is in a better position. Mr. Canzano asked about the educational program for PSP rollovers to the Deferred Compensation Plan and if advertising should be considered.

Mr. Mumma asked for a report on staffing percentages and dollar amounts related to Plan administration, the possibility of converting current employees to 100%, and information on the authority of the Board to reserve staff resources for the Plan.

Mr. Canzano asked for a report on enhancing distribution education materials, providing those materials on the website, and including information about Required Minimum Distributions and In-Plan Roth conversions.

### 14. FUTURE MEETING DATES

The next Regular Meeting of the Board is set for November 18, 2014. The next Investments Committee Special Meetings are October 22, 2014 and October 30, 2014.

### 15. ADJOURNMENT

**A motion was made by Mr. Mumma, seconded by Mr. Schoonover, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:32 a.m.***